

**Testimony of Ambassador Richard L. Morningstar
Special Envoy for Eurasian Energy
House Foreign Affairs Committee
Subcommittee on Europe and Eurasia**

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Chairman Burton, Ranking Member Meeks, Members of the Committee:

It is a great pleasure to be here today to talk about one of the important pillars of U.S. diplomacy, energy security. I'd like to thank the Committee for inviting me to talk to you about what the U.S. is doing with regard to energy security. We'll examine the overall U.S. Eurasian energy strategy and then discuss the specific areas where we are implementing it.

What is the U.S. strategy?

There are three main components of our Eurasian energy strategy. **First**, we want to encourage the development of new oil and gas resources and also promote efficiency and conservation in the use of all energy resources. Because there is a world market for oil, new production contributes to meeting growing demand anywhere in the world, including in the United States. When we are talking about new natural gas production in the Caspian region, it is unlikely that any of that gas will reach the U.S., but it is still important because it will add to international gas supply. Additional supply in one place naturally frees up supply in another. As the market for liquefied natural gas continues to grow, we can start to think about gas moving around markets in much the same way oil does.

Second, we want to assist Europe in its quest for energy security. With the combination of goods and services, the EU27 and the U.S. account for the largest bilateral trade and investment relationship in the world. Europe is our partner on any number of global issues from Afghanistan to Libya to the Middle East, from human rights to free trade. We have an interest in an economically strong Europe. Of course, Europe is composed of many different states and energy security is a more pressing issue to some than to others. Some countries in Europe do not have a diverse energy mix and depend largely on a single supplier and transport route. When that route is disrupted, as we witnessed in January 2009, the consequences can be severe.

The populations of Bulgaria and Serbia and others who suffered in the cold can attest to that. So our aim is to encourage the development of a balanced and diverse energy strategy with multiple energy sources with multiple routes to market. This approach furthers competitive, efficient markets and the best prices for consumers.

Third, we want to help Caspian and Central Asian countries find new routes to market. We want to help foster economic growth and prosperity in these countries. By expanding export routes, they can increase competition for their resources, demand a fair price, and create strong links to the global economy. These countries should also be able to make their own independent choices regarding how they deal with energy resources.

How will we achieve our energy security goals?

Energy markets work best when free market forces drive decisions on how oil and gas are produced, transported, and purchased.

This is normally the case for private firms and can even be the case for state-owned oil and gas companies. But governments can and should play a facilitating role. Governments should put in place the right business climate to attract investment and should work with neighboring states to expand the market and increase interconnectivities. We can encourage these efforts, and work with our partners to create the political framework in which businesses and commercial projects can thrive.

At the heart of our policy is the belief that energy security is best achieved through diversity – diversity of suppliers, diversity of transportation routes and diversity of consumers, together with a focus on alternative technologies, and renewable and other clean energy technologies, and increased energy efficiency.

The Southern Corridor

In line with this approach, the Obama Administration strongly supports the establishment of a new pathway, the so-called Southern Corridor, to bring natural gas to Europe, via Turkey, from the Caspian and potentially other sources beyond Europe's south-eastern frontiers. Gas from Azerbaijan's offshore fields will be the first significant volumes available to supply the Southern Corridor. Development of a major field is well underway by the international Shah Deniz consortium. Three separate pipeline consortia --

the Nabucco, ITGI and TAP groups – are meanwhile laying the financial, technical and organizational groundwork to compete for the right to ship Shah Deniz gas. From the standpoint of U.S. policy goals, the best outcome is one that brings the most gas, soonest and most reliably, to those parts of Europe that need it most. But at the end of the day, any solution for bringing Azeri or other gas to European customers must make commercial sense. In light of the momentum achieved over the past 18 months, we are confident that a commercially viable Southern Corridor will be realized. The investment decisions to make that possible should occur by the end of this year.

While gas from the Shah Deniz field will be the first gas available and is necessary to the development of the Southern Corridor, there is good reason to believe other sources can ultimately contribute additional volumes to the Southern Corridor. Azerbaijan has promising potential in other Caspian fields. Turkmenistan is investing in infrastructure to keep open a western gas export option. And there are increasing indications that, once it finds the means to satisfy pressing domestic demands for electricity, Iraq will have significant gas export capacity. We have an active dialogue with these countries, with key partners like Turkey, and with relevant members of the international business community, to explore and encourage development of the broadest possible basis for a robust Southern Corridor that will ultimately be a critical element in the global energy architecture.

Oil markets and oil production are also keys to our strategy. We actively support further production of oil in Kazakhstan and new export routes for that oil to world markets, since Kazakhstan is one of the few non-OPEC countries with the potential to substantially increase production over the next 10 years.

Russia

Some people have portrayed our energy policy and Russia's as the next round in the Great Game in Central Asia. I reject this analogy. Energy security and energy investment are topics for serious two-way discussions with Russia. The importance of these issues is reflected by the inclusion of a Working Group on Energy, chaired by Energy Secretary Chu and Russian Energy Minister Shmatko, under our U.S.-Russia Bilateral Presidential Commission. The Energy Working Group also includes sub-groups on Energy Security, Energy Efficiency, and Clean Energy Technologies.

Discussions held in the context of the Presidential Commission, and other venues, will help us find areas where the United States and Russia can mutually benefit from cooperation in the energy field.

Russian Deputy Minister of Energy Kudryashov and I chaired two meetings of the EWG's Energy Security Sub-Group, in which we have had productive discussion on issues such as world market energy trends, proposed projects to bring new oil and gas to market and bilateral investment in Russian and U.S. energy markets. Russia is an important supplier of oil and gas, and we welcome market-driven expansion of its production capacity.

We are considering a Russian proposal to hold an energy investment conference in Moscow in the fall.

The Energy Efficiency Sub-Group, co-chaired by the Department of Energy (DOE), is developing a pilot smart grid project that will match Russian and U.S. cities and facilitate the sharing of experiential data, technical information and best practices. The Clean Energy Sub-Group, also chaired by DOE, has focused on facilitating exchanges and sharing best practices with regard to biofuels, solar, new materials, smart grids, hydrogen economy, and clean energy forecasting. The Energy Efficiency and Clean Energy Sub-Groups have also agreed to cooperate on federal energy management programs and financing mechanisms, and to conduct joint research on clean energy technologies.

Ukraine

The United States and Ukraine are heavily engaged on energy issues. We discuss energy on a regular basis through the U.S.-Ukraine Commission on Strategic Partnership as well as the U.S.-Ukraine Energy Security Working Group. We continue to encourage Ukraine to take the necessary measures to attract foreign investors to its energy sector, including transparency, good governance and effective legal and regulatory frameworks. Ukraine has recently taken steps to reinforce its energy security, including plans to increase domestic supply of both conventional and unconventional gas sources. The February 2011 signing of the U.S.-Ukraine Memorandum of Understanding on Unconventional Gas Resources marks a deepening of our bilateral cooperation in the energy sphere. The next step will be cooperation between the U.S. Geological Survey and Ukraine on assessing Ukraine's unconventional gas potential, and providing advice on related environmental and regulatory issues

Central and Eastern Europe

We support Central and Eastern European states efforts to more effectively diversify energy sources. We are encouraging them to coordinate work toward a common energy market and to increase gas and electricity connections with each other and with the larger, better-supplied economies of Europe. To this end, the U.S. is actively cooperating with the Baltic States in implementing the Baltic Energy Market Interconnection Plan (BEMIP), which strives for full integration of the Baltic States into the European energy market. The U.S. also encourages increased regional efforts in the energy sphere by the Visegrad Four (V4); Poland, Czech Republic, Slovakia, Hungary, and other countries in the region. New gas import infrastructure is underway in Poland and elsewhere in the region.

Existing Infrastructures, EU Law and Unconventional Sources

It is important to emphasize that new pipelines alone will not full assure Europe's energy security. The U.S. supports the other initiatives that Europe is undertaking to increase its own energy security, including through a major set of decisions in energy that the European Council recently adopted. Those initiatives focus on building a single market for energy, unbundling the distribution and supply functions of energy firms, building interconnectivity of European gas and electricity networks, environmentally sound development of shale gas reserves, enhancing LNG import capabilities, increasing gas storage, improving energy efficiency, and exploring alternative and renewable sources. All of these are pieces of the puzzle to ensure European energy security.

While some of that appears highly technical, these measures move toward a future where every country in Europe can access regional and global markets for energy resources. We are already seeing this today, as the United Kingdom is becoming an important transit country for LNG supplies to reach continental Europe. Some of this included LNG that has become available to global markets as U.S. domestic gas supplies have increased. Interconnector pipelines are being expanded or built to move gas across borders in multiple directions within Europe. Such developments should greatly improve Europe's ability to respond to supply shocks and to adapt to changes in global supplies and markets.

The U.S. - EU Energy Council

The U.S.-EU Energy Council was launched in November 2009, formalizing our ongoing engagement with the EU and member states on energy issues in three areas: Global Energy Security and Markets, Energy Policy and Standards, and Technology and Research Cooperation. We have developed coordinated approaches to Ukraine, Russia, the Southern Corridor and Iraq. We are coordinating with the EU to encourage Ukraine to implement international financial institutions' pre-conditions for financing. The Energy Council played a key role in encouraging Turkey and Azerbaijan to reach an agreement on gas transit and supply conditions, which will ultimately help secure Caspian basin supplies via the Southern Corridor. We are also exploring options to foster development of Iraq's gas resources.

In coordination with the Trans-Atlantic Economic Council, the Energy Council is making strides toward harmonizing battery and plug-in charging standards for Electric-drive Vehicles (EVs) and software for Smart Grids. Finally, we are working to facilitate an unprecedented level of researcher exchanges in key areas of clean and renewable technologies research.

Given current global financial and economic conditions, it is more important than ever for countries to have reliable and consistent access to affordable energy supplies. Greater energy interconnectivity, competitiveness, and transparency will increase energy security and propel economic development and prosperity.

In sum, the key to achieving our Eurasian energy strategy is engagement. We need to continue to engage with the private sector, with the EU, and also with Turkey, Russia, and Caucasus and Central Asian countries. Our job is to listen, identify common interests and priorities and play a facilitating role where we can. We appreciate your interest in these matters and look forward to working with you to build stronger relationships with our partners around the world to ensure that we all enjoy an energy secure future.

Thank you.